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Weekly Summary
30 December - 5 January

GENERAL

5 January 1948

Japan Peace Treaty

The Soviet Government replied to the Chinese note of December 5 on the Japanese peace conference by interpreting the Potsdam Agreement as making it mandatory that the CPM prepare the treaty and by maintaining the position that the Moscow Agreement of 1945 especially stipulates that the Far Eastern Commission will not concern itself with the settlement of territorial questions, one of the important constituents of any peace settlement with Japan. Concession to the other nations which fought against Japan is allowed in the proposal that they might work on subcommittees and an informational consultative conference. Japanese political parties have been spending a disproportionate amount of energy and vocal power in discussing the Japanese peace treaty. Until recently, political leaders have not only been expecting an early peace treaty but also hoping that Japan might be permitted to be present at the peace table. The political strategy appears to be that the Cabinet signing the treaty will then be able to claim Allied support for its domestic policies. (However, the intransigence of the USSR and the position taken by China make the feasibility of a peace treaty in the near future highly questionable.)

Control of UK occupation forces in Japan

Effective 1 January 1948 control of the UK occupation force in Japan was vested in the Australian Government and Australian service chiefs. The Chiefs of Staff committee, composed of representatives from the British, New Zealand, and Indian forces, will be dissolved, according to Acting Minister for Defense Drakeford.

Possible Australian labor ban on arms to China

The Australian Waterside Workers' Union is considering the imposition of a ban on loading of arms for the Chinese Nationalist Government.

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Japan--Political

Japanese Diet Developments--On the reconvening of the Diet on 10 December the various Diet parties claimed membership as follows: Social Democrats - 140 seats, Democrats - 105, Peoples Cooperative - 32, Liberals - 120, Doshi Club - 22, Dai Ichi Giin - 15, Farmers' Party - 8, Communists - 4, Independents - 3, Vacancies - 17. The first three named parties form the present coalition government. Since 10 December Hirano, leader of the National Farmers' Union right wing element of the Social Democratic Party, has indicated that his group numbering twenty-four will leave the Party. In view of the Diet member's practice of giving allegiance to leaders rather than party principles it is not unlikely that a new Diet party may be formed from some or all of the minor relatively right wing groups such as the Peoples Cooperative Party, Hirano's group, the Doshi Club, Dai Ichi Giin, and the Farmers' Party. Such a coalition combined with the Liberal Party could probably block the present Cabinet's legislation and bring about the necessity for another general election. The Katayama Cabinet's popularity is slowly diminishing, not so much as a result of dislike for the Cabinet's policies but due to the deteriorating economic situation and a tendency to blame it on those in power.

Japan--Economic

Currency Circulation Tops 200 Billion Yen Mark--The Bank of Japan currency circulation on December 29 reached the staggering figure of 220,919,000,000 yen. The increase in bank note volume of 6,602 million yen registered on December 29 was the biggest single day's gain ever recorded.

Korea

The continued failure of Canada, India, and El Salvador to name representatives to the UN Korean Commission will have a serious effect on the ability of the Commission to accomplish its mission in Korea and will play into the hands of Soviet propaganda which has consistently held that the US was attempting to use the 9-member Commission as a tool for its "treacherous" plans in Korea. Coupled with the anticipated boycott by the Ukraine, the continued absence of delegates from the three above-mentioned countries would leave the Commission with only 5 members. Whether the absences are due to mere inertia on the part of the governments involved or personal unwillingness on the part of potential delegates to serve in a troubled area, the Soviet propaganda machine can be expected to hail the development as a "revolt" by "small nations" against the "imperialistic schemings" of the US. Such a situation cannot fail to detract from the Commission's prestige in Korea as the representative of "world opinion", and will inevitably hamper it in its work.

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CHINAMilitary

The emphasis in the Communist seventh Manchurian offensive has shifted westward from Mukden to the Hsinnin-Chinchou area. The Communists, probably unwilling to expend the men and materiel necessary to take Mukden at the present, will now concentrate on damaging the Leipzig-Mukden rail road as extensively as possible. The Nationalists are now engaged in withdrawing their better units from Changchun, Kirin, and Tsupingkai, one of which will probably be the next Communist target.

To the south, all rail roads leading out of Leipzig have been subjected to Communist interdiction during the past few weeks. In Homan, Communist general Liu Po-cheng has again become active along the Yangtze, interrupting river shipping in the Fusueh area, while other Communist units are active over broad areas northwest of Hankow.

Internal Affairs

A "Kuomintang Democratic Group" has been formed in Hong Kong under the leadership of Li Chi-shen, old time South China warlord, and once Chief of Staff to Chiang Kai-shek. This organization constitutes an attempt to rally various southern dissidents against the National Government, and to provide for assumption of power in the south when the Government falls. The formation of such an organization has been expected for some time. On 8 August 1947 the National Government announced its intention to issue a warrant for Li's arrest on charges of "treason...organizing a private army and making slanderous statements against the Government," and since that time there have been a series of reports estimating the nature of a future South China coalition against Chiang. However, the significant factor not yet made clear is the extent and the nature of the military support accorded Li's organization, and whether such personalities as Tsai Ting-kai and Chang Fa-kuei have pledged their participation.

Mao Tse-tung, longtime leader of the Chinese Communists, made his first lengthy public utterance since 1945 in a report to the Central Committee of the Chinese Communist Party on 25 December 1947. Mao's speech was militantly optimistic in tone, and scornful of Chiang Kai-shek, once more characterized as the running dog of US imperialism. Mao outlined ten principles which have guided Communist strategy in the civil war, and stated that these principles have enabled the Communists to overcome the temporary advantage enjoyed by Chiang in 1946. He reemphasized the Communist agrarian program, reiterating the basic principles announced by the Central Committee of the Communist Party on 10 October 1947. Mao urged the members of his party -- numbering, he said, 2,700,000 -- to hew to the party line and avoid "erroneous thinking". Finally Mao recommended that the Far East, like Europe, unite in the creation of a Cominform.

Reports from Nationalist circles assert that Communist leaders

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Lin Hiao and Li Li-san have opened negotiations with the USSR for exchange of Soviet arms for Manchurian commodities.

Chiang Kai-shek, in his annual "State of the Nation" address on 31 December 1947, described the present Communist menace as coming "as much from without as from within". He declared that the main Red forces must be annihilated within a year, but admitted it would take years to clean up Communist remnants.

External Affairs

The Chinese Ambassador in Moscow opposed a collective diplomatic corps protest over the new ruble exchange rate, and refused, as Dean of the Corps, to call a meeting with a view toward making such a protest to the USSR. The British Ambassador then agreed to take the initiative and was assured of support from the US Embassy.

Moscow's recent radio blast against the Kuomintang and the new Chinese Constitution represented the strongest attack yet made on the Chinese Government by an official Moscow organ, and, according to some sources in Hanking, reflects a change in tactics toward China on the part of the Soviet Government. Hitherto the Soviet-controlled press in China has maintained neutrality in comment on the Chinese civil war, while the radio and press within Russian borders has refrained from openly siding with the Chinese Communists or directly attacking the Generalissimo.

The Soviet Consul at Peiping has denied the report by the Chief of Staff of the Generalissimo's Peiping headquarters alleging Soviet military aid to the Chinese Communists. The Consul also repudiated the recent story of a Soviet-Chinese Communist agreement for military aid, and used the occasion to emphasize that the USSR recognizes only the Chinese National Government.

Economic

Finance Minister C.K. Yui, in a report to the Resident Committee of the People's Political Council on 3 January, stated that the National Government budgetary deficit at the end of the year 1947 was 26,400 billion Chinese dollars (or approximately US\$ 296,000,000 at the official "open market" exchange rate). He pointed out that China's foreign trade position showed some improvement in 1947 over previous years, but the unfavorable balance of last year amounted to 4,270 million Chinese dollars.

Currency. The US dollar on the Shanghai black market remained fairly steady the past two weeks, with money continuing tight in face of the demand for lunar New Year settlements. The BM rate was CN 152,000 on 2 January compared with 135,000 of a month ago. The "open" selling rate was increased on 30 December from CN 84,000 to 90,000.

Prices. The general cost of living index for December 1947 reached 68,200 compared with the basic year 1936, an increase of 22% over

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November. For the period of 24 to 29 December inclusive an increase of 2.7% was reported in general index of wholesale prices of basic commodities, with food and building materials making the greatest gain.

Foreign Trade. Reports from Nanking on 27 December reveal that the State Council has approved a measure to increase import duties by 50% effective 1 January, on all commodities except cotton, rice, wheat flour, gasoline, kerosene, and diesel oil. This is another round in increasing budgetary revenue, which, if trends continue, will be offset by increased expenditures because of rising prices.

Budget. The State Council is reported to be studying a CN 90 trillion budget for the first half of 1948; a huge sum compared with the CN 9.3 trillion set up for the 1947 budget.

Views on Economic Conditions by Foreign Minister Dr. Tang Shih-chieh. Dr. Tang reports that the Cabinet feels only a stabilized currency can improve the economic situation; that military expenditures cannot be reduced and that increased taxes are ineffective against constantly depreciating currency. He agrees that stabilization of the currency alone would be insufficient, and must be accompanied by adequate improvements and reforms in other fields. Concerning US aid to China, Dr. Tang has raised no objection to the inclusion of those reservations included in aid plans now in effect or being prepared for Europe. (FEI comment: general unstable currency and inflation are results, not the basic cause of China's present economic ills.)

Transportation: Railroads. According to recent information the railway situation China worsens in the face of continued Communist offensives. Between 50 and 60% of all rail lines are now disrupted. The only lines which have consistently remained open are the Shanghai-Nanking line, the Canton-Hankow and the line in Communist territory from Lanchowli to Suifenho in Manchuria. The railway from Tientsin to Chinkuangtao was open on 2 January after having been almost constantly inoperable since 15 December, but further breaks are expected. In most cases ties are burned and rails are removed which makes repair almost impossible. No double-tracked lines are consistently in service in China since rails from one line have been removed to repair the other.

UNRRA Fish Catches. The government appears reluctant to intervene in the Shanghai fish market dispute over UNRRA's efforts to increase catches and bring prices down in opposition to the fish monopoly who wish to reduce catches and keep prices up. The question is just how far will the government go in bucking the powerful vested fishing interests.

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Siam

The Siamese provisional government last week proclaimed the repeal, by Royal decree, of the emergency powers held by the Army since 20 Nov 47. These emergency powers had enabled the military to make legal house-searches and arrests in order to insure the preservation of peace and order and to forestall possible counter-coup activities. The announced reasons for the repeal of these powers were that the present regime is now free from attack, that peace and order is established, and that the Police Force is capable of handling the present situation.

FE/P Branch feels that this proclamation was issued probably for either or both of two objectives: (a) to remove grounds for opposition charges that the Army has too much power and is in a position to control the elections at the end of January, and (b) to win foreign recognition by creating an aura of responsibility and tranquility about Siam and the present regime. If the latter objective is achieved, the opposition groups, in attempting to stage a forceful comeback, would be placed in the role of rebelling against a stable and duly recognized government. As the situation exists at present, a successful return to power by the opposition would negate the question of recognition since foreign recognition of the Thamrong Government continues.

Burma

Burma became a sovereign independent republic, known as the Union of Burma, on 4 January at the precise moment ordained by certain Buddhist astrologers, after some disagreement, to be the most auspicious for Burma's future. Burma enters into independence with the most honest Government in its history, enjoying the support and assistance of the UK, but nevertheless beset with several difficult problems. The major problem is the establishment of a strong central Government and effective administration under a constitution, the provisions of which permit the formation of almost any type of Government. The realization of anything approaching good Government depends, to a large degree, upon the continued internal cohesion of the Anti-Fascist League, the dominant political organization in Burma. Friction within the AFL has been reported on several occasions since Aung San's death, and its disintegration would lead to chaos throughout the country. The development of effective administration is handicapped by the shortage of qualified administrators which will continue as long as Burma's educational system continues to deteriorate. Lawlessness is still rampant and unchecked in various parts of the country, often instigated by dissident personalities and political factions - notably the Communists. Minorities, both foreign and indigenous, pose another serious problem. Although most of these ethnic groups have made an uneasy truce with the predominantly Burmese Government and have accepted the constitution, tension continues, particularly among the Karens.

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Burma (continued)

Economically, the country has made slow but steady progress towards rehabilitation, except in areas most affected by lawlessness, and is now almost able to pay its own way with receipts received largely from the export of rice. The Government's policy, avowedly leftist, is the socialization of land and industry. Despite considerable talk of drastic measures, it appears that socialization will be carried out gradually, legally, and by the payment of compensation for expropriated property.

It is essential therefore that the AFL, which sponsors the current Government, maintain its present unity and integrity at least for the next two years, if Burma is to become an economically and politically stable nation responsible for its internal tranquility and international reputation.

Australia

FIC negotiations with Australian Government. The US Foreign Liquidation Commission representative, Sydney, has reported that the Australian Commonwealth Government requests immediate occupancy and use of US Navy facilities in the Manus area. A representative of the Commonwealth Government expects the purchase price to be a token figure without regard for the original investment. The FIC representative reports further that he has been unsuccessful in obtaining favorable Australian reaction to a one-parcel deal involving New Guinea installations, British Lend-Lease surplus and Manus. The Commonwealth Government maintains that any such deal is a favor to the US and has indicated that it is prepared to exert any means necessary to settle on its own terms. Currently the Australian Government has indicated an intention to withdraw any interest in Manus if terms are not accepted, in which case it may publicly cite the "unreasonable" US demands as making its plans for Manus impossible. While recognizing the political advantage of acceding to their request regarding Manus, the FIC representative has recommended that a price be set on a take-it-or-leave-it basis.

Good-will mission to India. At the request of the Indian Government, Australia is sending a scientific good-will mission to India which is expected to arrive in January. Its function is to report on scientific developments in Australia and the application of science to natural resources. It is probable that the use of atomic energy will be one of the topics of discussion. The importance of the mission is indicated by the caliber of men composing it, most of whom are leaders in the fields of Physics, Industrial Chemistry, Agricultural research, and Electrical Engineering.

Economic. An interesting effect of the dollar shortage is the impetus given to Australia's export trade and manufacturing industry. Increased production at lower costs is necessary to enable Australia to compete in the dollar market. The Government is considering restrictions on home consumption in order to take advantage of export opportunities.

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Domestic prices are expected to rise somewhat in 1948. The 40 hour work week, (instituted 1 January), the abolition of federal subsidies, and the rise in overseas prices are contributing factors.

New Zealand

Military. Plans for the post-war Air Force envisage maintenance of five squadrons comprising 4,000 regular officers and men together with 2,000 non-regular personnel. Total cost when the force is fully established is estimated at 4,500,000 pounds a year. The plan has been approved by the Defense Council and enabling legislation is now being prepared.

Philippines

Reactivation of Philippine Constabulary. Of considerable importance, in view of continued reports of possible major disturbances in the Philippines, has been the reactivation of the Philippine Constabulary on 1 January as scheduled with the former Chief of the Military Police Command, Brig. Gen. Mariano Castaneda, as its head. While it is not now considered likely that Castaneda will be involved in any overt move against the Roxas administration it has been established that a strong feeling of mutual distrust exists between President Roxas and Castaneda. This situation tends to weaken President Roxas' ability to deal effectively with the problem of law and order at a time when dissident elements continue to threaten and will probably result in rather adroit shifting of top personnel in both the Constabulary and Armed Forces.

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